



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF LIMITED SCOPE EXAMINATION
of

EDUCATORS HEALTH PLANS LIFE, ACCIDENT AND HEALTH, INC.

of
Salt Lake City, Utah

as of
July 31, 2006

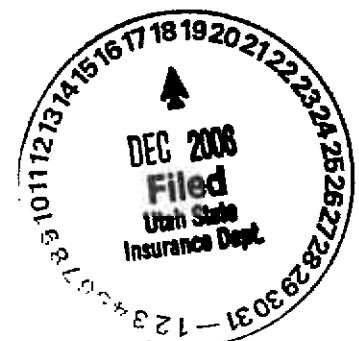


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September 26, 2006

Honorable D. Kent Michie
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, a limited scope examination, as of July 31, 2006, has been made of:

EDUCATORS HEALTH PLANS LIFE, ACCIDENT AND HEALTH, INC.
Salt Lake City, Utah

hereinafter referred to in this report as the "Company", and the following report of examination is respectfully submitted. The examination was scheduled in conjunction with the regularly scheduled examination of the Company's affiliates to alleviate concerns about the newly formed company.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from the Company's inception date of January 24, 2006, through July 31, 2006. As this Company has recently begun operations, the Utah Insurance Department (the Department) requested a limited scope examination be done on certain major areas of operations during the first few months of business.

Examination Procedure Employed

A limited scope examination is not intended to communicate all matters of importance for the understanding of the Company's financial condition. The procedures employed in this examination have been tailored to address only a review of certain specific areas of the Company's operations from January 24, 2006 through July 31, 2006, as outlined herein.

The examiner has performed certain procedures to verify that the cash and investments, as reported on the most recent quarterly statement of June 30, 2006, are owned and controlled by the Company. We obtained custodial confirmations of cash and invested assets, reviewed the Company's reconciliations with bank statements, reviewed the State's confirmation of statutory deposits, and verified that the cash and investments

infused into the Company as paid in capital, were properly transferred into the Company's accounts as directed by the Utah Insurance Department.

During the review of the Company's bank accounts, the examiner sampled disbursements and deposits, only to obtain an overall understanding that premiums were transferred to the Company in a timely manner from its parent, Educators Mutual Insurance Company (EMIA or the Association).

The examiner obtained copies of the reinsurance agreement and management services agreement to verify that the Company was adequately covered by reinsurance, with a transfer of risk, and that transactions for management services were pursuant to a respective agreement. The examiners have not performed any further work on the agreements.

SUMMARY OF EXAMINATION FINDINGS

Premium Receipts

While testing cash and investments, the examiner traced a sample of deposits and disbursements. It was noted that the parent, EMIA, collects premiums for its insurance subsidiaries, and deposits the premiums into the EMIA Corporate account. The Company provided a sample of premiums received by EMIA during June 2006, the deposit into the EMIA Corporate account, and the related settlement of inter-company balances, and transfer of amounts due to the Company at August month-end.

There is an associated management agreement between the two companies, providing for EMIA to provide administrative services to the Company, including collecting premiums. The management agreement specifies that billing for settlements between the two companies be made within 10 days after the end of the previous quarter, and paid within 5 days of billing, which would be no later than July 15 for June premiums. The June premiums tested were transferred into the Company's bank account on August 31, 2006.

Reinsurance Agreement

The Company is named, along with its parent and affiliated insurers, in the September 1, 2005 through August 31, 2006 reinsurance agreement with Allianz Life Insurance Company of North America, providing medical excess of loss or stop loss coverage. The Allianz agreement provides for three layers of coverage over the first \$300,000 retention per member per contract year, up to the level of \$2,500,000 ultimate net loss. There is a special provision in this treaty for members that utilize the LifeTrac Network Transplant, the excess coverage picks up after the first \$200,000 retention to \$2,500,000. The Company appears to be adequately protected by reinsurance, with a proper transfer of risk.

Statutory Deposit

The Company maintains a \$400,000 statutory deposit, pursuant to U.C.A. § 31A-4-105, comprised of US Treasury Notes with a local financial institution, as confirmed by both the financial institution and the Department.

Invested Assets

Bonds	\$1,365,535
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Seventy-One percent or \$965,054 of the reported balance of \$1,365,535 in the bonds did not qualify as admitted assets. These specific bonds were not held in the name, ownership and control of the Company, but were in an account owned by an affiliated company, Educators Administrative Services, Inc. (EASI). Also, the Company was not included on the parent's custodial agreement with the respective custodian. Therefore, the Company was not in compliance with U.C.A. § 31A-4-108, because investments were not held in its own name, nor were they held under an approved custodial agreement or trust arrangement as required by Utah Administrative Code (U.A.C.) Rule R590-178.

Preferred Stocks	\$241,011
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The reported balance of \$241,011 in preferred stocks did not qualify as admitted assets, in accordance with U.C.A. § 31A-4-108 and U.A.C. Rule R590-178.

Cash and Cash Equivalents	\$595,298
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More than half, or \$310,439 of the reported balance of \$595,298 in cash and cash equivalents was not considered to qualify as admitted assets. The Company reported three certificates of deposit held with two financial institutions that were not held in accordance with U.C.A. § 31A-4-108 and U.A.C. Rule R590-178.

Pursuant to the National Association of Insurance Commissioners (NAIC) Statements of Statutory Accounting Principles, statement number four (SSAP No. 4), adopted by U.C.A. § 31A.17-102, assets not owned and controlled by the reporting company shall be reported as a non-admitted asset and charged against surplus. This applies to all of the above-mentioned bonds, preferred stocks, cash and cash equivalents.

2006 Notes to Financial Statements

Note 1.c.5. in the June 30, 2006 quarterly financial statements, reads "Effective January 31, 2006, Rx Direct, Inc. and Educators Administrative Services Inc. (EASI) were dissolved. All of the assets and liabilities of these two entities were transferred to the Association since it was the sole shareholder. All of the groups previously serviced by

Rx Direct and Educators Administrative Services were transferred to the Association for servicing. In turn, the Association contributed all of the former assets of EASI to two new insurance companies; Educators Health Plans Health, Inc. and Educators Health Plans Life, Accident and Health, Inc.”

The Board of Directors of the Association unanimously passed a resolution for the dissolution of Rx Direct and EASI in its meeting held on January 26, 2006. The examination verified with the Department of Commerce that Rx Direct was voluntarily dissolved in May of 2006, and EASI was still an active entity through September 2006.

Confirmations were sent to the banks and custodians to verify the assets were held in the name of Company in accordance with U.C.A. § 31A-4-108. The banks and custodians confirmed the assets were still held under the federal identification number of EASI through August 2006.

Subsequent Events

The Department confirmed that subsequent to the examination date, the Association transferred the EASI assets into the custodial accounts of the Company and its affiliate, Educators Health Plans Health, Inc. on September 18, 2006. Subsequent confirmations were received by the Department to verify the ownership of the assets held with U.S. Bank, Jordan Credit Union and Zions First National Bank. A custodial agreement was executed with U.S. Bank on September 6, 2006, which complies with U.A.C. Rule R590-178.

Capital and Surplus

\$2,194,838

The Company’s capital and surplus was determined to be \$2,194,838, as of June 30, 2006, after the Association took corrective action to transfer the invested assets into the Company’s name to comply with the licensing requirements of the Department. The invested assets were placed under a proper custodial arrangement in accordance with U.A.C. Rule R590-178.

As defined in U.C.A. § 31A-5-211, the Company’s minimum capital or minimum permanent surplus requirement is \$400,000. The Department required that the Company have a total minimum capital and surplus of \$1,798,000 for licensing requirements.

CONCLUSION

Participating on this examination, were Neeraj Gupta, CFE, Examination Manager and Colette M. Reddoor, CFE, CPM, Assistant Chief Examiner, who join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Carolyn Maynard".

Carolyn Maynard, CFE
Examiner-In-Charge, representing the Utah
Insurance Department